CALIFORNIA MEDICAL ASSISTANCE COMMISSION
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CALIFORNIA MEDICAL ASSISTANCE COMMISSION

State Capitol, Room 113

Sacramento, CA

Minutes of Meeting

March 24, 2005

COMMISSIONERS PRESENT
Nancy E. McFadden, Chair
Thomas Calderon
Diane M. Griffiths
Teresa P. Hughes
Vicki Marti
Cathryne Bennett Warner

CMAC STAFF PRESENT
J. Keith Berger, Executive Director
Enid Barnes
Theresa Bueno
Paul Cerles
Denise DeTrano
Holland Golec
Steve Soto
Michael Tagupa
Karen Thalhammer

COMMISSIONER ABSENT
Lynn Schenk

EX-OFFICIO MEMBERS PRESENT
Bob Sands, Department of Finance
Sunni Burns, Department of Health Services

I. Call to Order

The March 24, 2005 open session meeting of the California Medical Assistance Commission (CMAC) was called to order by Chair Nancy E. McFadden. A quorum was present.

II. Approval of Minutes

The March 10, 2005 meeting minutes were approved as prepared by CMAC staff.

III. Executive Director's Report

Mr. Berger reported that there were no new requests from hospitals or health plans to appear before the Commission in closed session at this time.

Mr. Berger informed the Commissioners that a representative from the California Hospital Association (CHA) is in attendance to give the Commissioners an overview of the Seismic Retrofit Program (SB 1953) from the hospitals' perspective during today's open session.

Mr. Berger also informed the Commissioners that CMAC staff is continuing to work with the University of California regarding the amount of money to be transferred into the fund for the Medical Education Supplemental Payments Program. He noted that CMAC staff is making good progress, but that there have been some data and waiver cap related issues that are taking a little longer to resolve than staff had hoped. Because of these issues, the Medical Education amendments might not be available until the second meeting in April. CMAC staff will continue to work on the amendments as quickly as possible.

Mr. Berger welcomed Sunni Burns back from her vacation and requested that she give the Commission an update on the Medi-Cal Redesign.

Ms. Burns indicated that she did not have a lot to report on the Medi-Cal Redesign at this time. Ms. Burns suggested that once the proposal was finalized that the Commission would ask Ms. Mollow to come back and give the Commission a complete report on the Medi-Cal Redesign.

Ms. Burns remarked that there have been many discussions going on with the State and CMS regarding the hospital-refinancing proposal. The major issue under discussion is the $180 million for indigent care.

Ms. Burns indicated that there is a meeting with the hospital association this afternoon to work on hospital data, but as for specific information, she did not have anything further to report at this time.

Commissioner Calderon asked Ms. Burns about the process and if there was going to be an attempt to negotiate with the Legislature regarding the final structure of the new hospital financing system.

Ms. Burns indicated that she did not know, but would gather information on the process of the negotiations and get back to Commissioner Calderon with the information.

Ms. Burns responded to Chair McFadden's question regarding the $180 million by saying that the issue for CMS is a combination of principle and availability of funds. Ms. Burns stated that she will inform the Commission once an agreement is made between the State and CMS on that issue.

In concluding her report, Ms. Burns informed the Commission that Governor Arnold Schwarzenegger has appointed Vanessa Baird as Chief of the Medi-Cal Managed Care Division for DHS.

IV. Medi-Cal Managed Care Activities

Mr. Berger indicated that there was nothing new to report at this time.

V. Presentation on the Hospital Seismic Retrofit Program

Roger Richter, Senior Vice President Professional Services, California Hospital Association (CHA), indicated that at the last Commission meeting, Mr. Schaefer of the Office of Statewide Health Planning and Development (OSHPD) had given the Commission a brief overview of the hospital seismic retrofit program, SB 1953, from the State's perspective, and he was here to give the Commission an overview from the hospitals perspective. Mr. Richter provided a copy of his presentation as a hand out, which is attached.

After Mr. Richter's presentation, Commissioner Calderon asked about the hospitals' capability in meeting the terms of the seismic and licensing requirements for these retrofit and replacement projects, and how long the review and approval processes take.

Mr. Richter stated that many of the hospitals might experience difficulty meeting the requirements due to finances. He further stated that the review process can take a long time for licensing in addition to the initial long review process of the plans by the Office of Statewide Health Planning and Development.

VI. New Business/Public Comments/Adjournment

There being no further new business and no additional comments from the public, Chair Nancy McFadden recessed the open session. Chair McFadden opened the closed session, and after closed session items were addressed, adjourned the closed session, at which time the Commission reconvened in open session. Chair McFadden announced that the Commission had taken action on hospital contracts and amendments in closed session. The open session was then adjourned.

CALIFORNIA
HOSPITAL
ASSOCIATION

Providing Leadership in
Health Policy and Advocacy

SB 1953 (Chapter 740, Statutes of 1994) The Hospital Seismic Safety Mandate and its effect on California Hospitals

A Report by the California Hospital Association to the California Medical Assistance Program

March 24, 2005
State Capitol
Room 113
Sacramento

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Background

I am Roger Richter, Senior Vice President Professional Services at the California Hospital Association (CHA). CHA appreciates the opportunity to address the California Medical Assistance commission this morning. At the March 10 meeting of CMAC, Kurt Schaefer, P.E. Deputy Director, OSHPD Facilities Development Division provided an excellent overview of the SB 1953 (Chapter 740, Statutes of 1994) hospital seismic mandate from a legislative and regulatory perspective. While Mr. Schaefer reported that 37.2 percent of hospital buildings are not seismic compliant, 40.9 percent of hospital buildings owned by hospitals which have CMAC contracts are non-compliant. Non compliant hospital buildings need to perform structural retrofitting or rebuild by 2008/2013.

However, even with an extension of the 2008 deadline to 2013 there are a number of issues which make it difficult for hospitals to comply with the seismic mandate including the:

--Financial status of California hospitals
--Cost of the seismic mandate
--Increased costs of seismic compliance since 2000

Financial Status of California Hospitals

The last year hospitals collectively had a positive operating margin was 1994 - the year the seismic mandate was enacted. During 2004, approximately 50 percent of all hospitals lost money on operations from patient care. As a result, approximately 25 percent of hospitals cannot access capital.

Cost of the Seismic Mandate

In 2000 dollars, CHA conservatively projected the cost of the seismic mandate at $24 billion without financing. RAND in 2002 projected the cost could be as high as $41 billion without financing.

Recent Increased Costs

Since 2000, California hospital construction costs have increased by approximately 40 percent. This is due to the large amount of construction occurring in China, the rebuilding of cities damaged in the southeast Asian tsunami, rebuilding Iraq, rebuilding Florida after four recent hurricanes and the overall healthy construction boom in California.

The above construction activities have resulted in an increase in the cost of building materials, namely steel and concrete. A shortage of skilled construction workers also

exists, which will continue to worsen. Because of their nature, California hospital buildings are complex and a new hospital will take at least 5 years from plan review to receipt of approval to occupy the building. This 5 year window alone can lead to significant construction cost increases.

Currently, professional construction cost estimators are advising California hospitals to estimate new hospital construction costs at $450/square foot in 2005 versus the $325/square foot used in 2000. For next year, hospitals are being advised to add a 6 percent increase to their projected costs.

Many hospitals have realized that it is not prudent to retrofit because the hospital will end up with a seismic compliant building that does not meet the needs of 21st century medicine and will still have to be rebuilt by 2030. This has had a major impact on shifting much of the cost of the seismic mandate from 2030 to 2008/2013.

Problem will not Disappear due to Old Infrastructure

RAND reports that the expected life of a hospital building is 50 years. The average age of a non-seismic compliant building is 49 years of age. California has this old infrastructure issue because many hospitals have not been able to afford to retrofit/rebuild over the past few years and they certainly will not be able to do so to meet the seismic mandate.

Although the "safer sooner" concept (e.g. not requiring 2008/2013 requirements if a hospital meets 2030 requirements by 2020) would assist a number of hospitals that need to rebuild, it does not assist hospitals that cannot access capital.

Even if hospitals receive additional deadline extensions, there is still a problem because some hospital buildings are becoming so antiquated they cannot be used to utilize 21st century technology.

Current Assistance Available to Hospitals

To date, 40.1 percent of the 434 hospitals under the seismic mandate have been granted an extension to 2013 based on diminished capacity. Thirty-three percent of the CMAC contracted hospitals have been granted an extension. Approximately 100 hospitals are or are in the process of meeting the 2008 structural requirements. Therefore, approximately 160 hospitals (36.9 percent) may still request an extension by January 1, 2007 or discontinue general acute care services by 2008. Hospitals that have not yet decided as to whether or not they plan to seek an extension fall into the following categories:

--Hospitals that believe they can meet the 2008 requirements.
--Hospitals that are still contemplating their future and might request an extension by January 1, 2007.
--Hospitals that intend to close by 2008.
--Hospitals that cannot access capital to meet the 2013 deadline.

Solution to the Seismic Mandate Problem

There is no one solution to addressing the seismic mandate issue. It will take a combination of financial assistance and additional extensions while ensuring that there is an efficient plan review system to expedite reviews to the extent possible.

Solutions will resolve around balancing the risks from an earthquake versus the risk of downsizing needed services and hospital closures.

CHA thanks you for the opportunity to present this testimony.